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Letter dated 20 September 1999 from the Permanent Representative of Mexico to the United Nations addressed to the Secretary-General

I have the honour to transmit herewith a letter addressed to you by Ambassador Rosario Green, Secretary for Foreign Affairs of Mexico, concerning the High-Level Regional Meeting "Towards a stable and predictable international financial system and its relationship to social development", held in Mexico City from 5 to 7 September 1999 under the auspices of the Government of Mexico and in collaboration with the Economic Commission for Latin America and the Caribbean (ECLAC).

I should be grateful if you would have this letter and its annex circulated as a document of the General Assembly under agenda item 97 (b).

(*Signed*) Manuel **Tello**
Permanent Representative of Mexico to the United Nations

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Annex

Letter dated 20 September 1999 from the Secretary for Foreign Affairs of Mexico addressed to the Secretary-General

I have the pleasure to refer to the High-Level Regional Meeting "Towards a stable and predictable international financial system and its relationship to social development", held in Mexico City from 5 to 7 September 1999 under the auspices of the Government of Mexico and in collaboration with the Economic Commission for Latin America and the Caribbean (ECLAC), for the purpose of supporting the process of reflection initiated by resolution 53/172, which the General Assembly adopted without a vote on 15 December 1998.

In this connection, I am pleased to transmit herewith the report of the Meeting (see appendix), which, I trust, contains elements that may contribute to the report which you are to submit to the General Assembly at its fifty-fourth session, pursuant to the above-mentioned resolution.

I take this opportunity to reiterate the high priority which Mexico accords to the development of methods for enabling the international community to forestall recurrent financial crises, with a view to ensuring global financial security.

I appreciate your valuable support and cooperation for the organization of this Meeting, as well as the participation and contribution of ECLAC, the Organization's Department of Economic and Social Affairs and the United Nations Conference on Trade and Development.

(*Signed*) Rosario **Green**
Secretary for Foreign Affairs

Appendix

High-Level Regional Meeting "Towards a stable and predictable international financial system and its relationship to social development"

Conclusions by the Chairman

In its resolution 53/172, the United Nations General Assembly requested the Secretary-General to submit a report on current trends in global financial flows and modalities to improve early warning, prevention and response capabilities for dealing with financial crises, taking a comprehensive and long-term perspective, while remaining responsive to the challenges of development and the protection of the most vulnerable countries and social groups.

Pursuant to this resolution, and with a view to contributing to the report which Secretary-General Kofi Annan is to submit to the General Assembly at its fifty-fourth session, the High-Level Regional Meeting "Towards a stable and predictable international financial system and its relationship to social development" was held in Mexico City from 5 to 7 September 1999 at the initiative of the Mexican Government and with the support of ECLAC.

The chief topics and conclusions of this event, which are being submitted to the Secretary-General for his consideration, are the following:

1. The financial crises of recent years, whose effects have had a profound impact on the international system as a whole, have revealed the destabilizing capacity of international financial markets; the insufficiency of isolated actions; the urgent need to identify and agree on preventive measures that can be implemented at the national, regional and global levels; and the need for a stable financial system as a prerequisite for the advancement of the social agenda and of a new development strategy.

2. The recurrence, intensification and complexity of global phenomena, as well as their systemic nature, make it imperative to redesign existing international cooperation mechanisms to address the causes of and solutions to problems that transcend national borders, as well as measures for forestalling them. Because worldwide economic problems pose a challenge to the social development efforts of individual countries, these issues should be approached in an integrated manner that involves national Governments, regional and multilateral organizations and relevant market actors.

3. The economies most severely affected by these crises have recently begun to recover. However, this should not give rise to an attitude of complacency in international financial circles. It is important that all countries, regardless of whether or not they were hit by crises, should redouble their efforts to prevent future episodes of instability. The Latin American and Caribbean region views international financial stability as a global social good and considers that the region should participate, on the basis of shared responsibility, in processes aimed at strengthening global financial governance.

I. The progress and challenges of a new international financial architecture

4. International financial institutions should reformulate their policies to address the major challenges posed by financial markets and to make the changes needed to forestall and avoid additional crises. Each institution's unique characteristics should be taken into account so that, through the clear definition of each entity's functions, duplication can be avoided and operations can be made more efficient.

5. The design of mechanisms to provide financing in times of difficulty is an important feature of the new international financial architecture. However, the magnitude of the recent financial crises and the volume of resources needed to provide markets with liquidity in times of instability make it impossible for international financial institutions to act as lenders of last resort in crisis situations.

6. The financial institutions' quota system must be revised to make more resources available for providing timely support to economies in difficulty. It is also necessary, in this connection, to seek complementary sources of liquidity, such as the anticyclical use of special drawing rights, and to set up regional reserve funds and strengthen existing ones.

7. Strategies such as the contingent credit lines designed recently by the International Monetary Fund (IMF) represent a step forward. The requirements for obtaining these resources must be clear and made known in advance, and these credit lines must be sufficient, timely and accessible.

8. Crisis prevention and management require greater consistency and harmonization among national and multilateral policies, though this does not necessarily imply that all policies should follow the same model or that each country's economic and social conditions should not be taken into account. More effective supervision and coordination, with an emphasis on prevention, are necessary in this regard. Notable in this connection are the contributions developed by the Latin American and Caribbean countries through their financial stabilization and adjustment programmes.

9. An early warning and prevention system must be developed to prevent or, as the case may be, to take timely action to address the threat of a financial crisis. Encouraging in this regard are the efforts made by IMF to develop empirical models to help predict balance-of-payments crises. It is essential to recognize the changing nature of such crises and the variability of their causes, as well as the possibility of contagion to fundamentally sound economies.

10. It is important to ensure the transparency of international financial markets and particularly that of short-term capital flows, and to improve methods of collecting and disseminating economic information.

11. Banking and financial supervision and regulation are basic pillars of stability in international financial markets. Progress should continue to be made in designing appropriate regulatory frameworks, taking into account the standards of the Basel Committee on Banking Supervision and of the International Organization of Securities Commissions (IOSCO) and placing special emphasis on the needs of developing countries.

12. One important component of the reform of the international financial architecture should be the strengthening of incentives for industrialized countries to take more disciplined investment decisions, reduce leveraging and limit systemic risks, and establish supervisory arrangements for extraterritorial financial centres.

13. The private sector's shared responsibility for crisis prevention and resolution should be strengthened. Creditors should effectively assume their share of the risk involved in granting credits. The measures which have been proposed are aimed at reducing the moral hazard that arises when creditors and investors are repeatedly bailed out and at spreading the burden of crises more equitably between the public and private sectors and between countries that receive capital and the creditors and investors.

14. Sovereign risk rating should be subject to strict, objective parameters that are publicly known. It is important that risk-rating agencies should provide complete, periodic and consistent information.

15. The orderly liberalization of capital flows is essential for enabling countries to gain access to resources for development and productive investment. An appropriate institutional framework must be set up to facilitate productive investment and to limit the volatility of short-term flows. In the absence of clear international rules on the management of speculative capital, both at the source and in recipient countries, each country should safeguard its capital account in a manner consistent with its exchange-rate system and with the use of market instruments and mechanisms.

16. It is essential to define the role of multilateral organizations and regional and subregional institutions in all these tasks and to ensure the equitable representation of developing countries in the design and implementation of the relevant mechanisms.

17. In this connection, it is important that the studies and consultations being conducted by the developed countries in the context of the Group of Seven should be concluded, with the support of the Bretton Woods institutions and of those countries' central banks. The developing countries' regional groups and coalitions, such as the Group of 77, the Group of 24, the Group of 15 and the Rio Group, should strengthen their participation in the dialogue with the Group of Seven, other industrialized countries and international financial institutions, with a view to ensuring the consistency and universality of economic policy measures and to designing and setting up the new international financial architecture. Regional and subregional financial institutions have a key role to play in this endeavour.

II. The challenges of social development in a context of financial globalization

18. The financial crises of the 1990s not only affected the international financial system, but also had a devastating impact on the social development efforts of the countries involved. This situation is particularly serious in view of current poverty levels.

19. Global flows of official development assistance from donor countries have fallen to 0.22 per cent of the gross national product (GNP) of the developed countries, reaching their lowest level in the past 20 years. Efforts must be redoubled to honour the commitments made at the World Summit for Social Development; that is, donor countries should earmark 0.7 per cent of their GNP for official development assistance and recipient countries, in turn, should allocate an average of 20 per cent of this official assistance to social development programmes and 20 per cent of their national budget to basic social programmes.

20. It is important to stimulate productive investment and to provide financing, on easy terms, to the least developed countries to alleviate their debt burden. We therefore support the Heavily Indebted Poor Countries (HIPC) Debt Initiative. In this connection, it was stressed that the cost of debt relief for regional and subregional multilateral institutions should be financed in accordance with the capacity to pay and the level of development of all borrower and non-borrower countries of the multilateral institutions themselves. Moreover, donations from international funds under this initiative should be used primarily to support regional and subregional banks and to alleviate bilateral debt between developing countries.

21. IMF adjustment programmes aimed at correcting the structural causes of crises should take care not to result in an overadjustment of the economies concerned, since this could bring about severe declines in economic activity or sharp reductions in social expenditure.

22. It is the sovereign right of each country to determine its own level of social expenditure, based on its own resources and conditions. Efforts must be made to harmonize economic and social development, achieve a more equitable distribution of income, promote gender equity and implement proactive social policies, with special emphasis on the needs

of the most vulnerable groups, such as children, women, the disabled, the elderly, indigenous persons and the unemployed.

23. International development banks, particularly the World Bank and the Inter-American Development Bank, should focus on the provision of financial support for social safety nets and should consider the promotion of human development as their ultimate goal. Governments, for their part, should strive for universal improvement of social services, carry out macroeconomic and social policies in a mutually compatible manner and minimize the economic and social costs of financial crises.

III. The role of the United Nations in designing an international financial strategy with social ramifications

The participants in the Meeting arrived at the following conclusions, which, in their view, should be considered by the United Nations, as the world political body par excellence.

24. The structural problems of the international financial system, which gave rise to the crises of recent years, remain unresolved. We are concerned to note that success in addressing their most obvious effects is currently giving rise to complacency and to the slackening of efforts towards systemic reform. The countries of Latin America and the Caribbean stand ready to play an active role, along with other developing regions, in giving new impetus to the reform process.

25. A new national and international development strategy should take into account the challenges and opportunities offered by globalization. The financial aspect of such a strategy is a key component of efforts to promote sustained economic growth and integrated social development. The international community's objective is to reduce the volatility of international financial markets and to achieve more harmonious and equitable development.

26. Given the complexity of the global issues that affect development, such as financial crises, it is necessary to devise means whereby the United Nations can fulfil its responsibilities in seeking solutions to international economic and social problems, particularly in terms of harmonizing national efforts to deal with problems affecting development.

27. This process should involve all the competent forums of the United Nations system, particularly the specialized and regional entities, as well as other international organizations dealing with specific aspects of financing for development.

28. The United Nations should contribute to the formulation and implementation of systems to improve early warning, prevention and response capabilities for dealing with the emergence and spread of financial crises in a timely manner.

29. One important and urgent challenge for the United Nations is that of including, as part of its activities in the economic, social and financial fields, the in-depth consideration of issues such as financial crisis prevention and management, issues pertaining to financing for development, the rules of access to multilateral resources and the role of regional institutions, while respecting the areas in which national autonomy must be preserved. In this connection, the dialogue between the United Nations and the Bretton Woods institutions should be continued and intensified with a view to creating optimal conditions for ensuring that the new international financial architecture reflects the global interests of the international community.

30. At the same time, the United Nations should strengthen the promotion of integrated social development by placing greater emphasis on compliance with the commitments made at the World Summit for Social Development, designing international cooperation schemes

and carrying out more programmes and projects to address the consequences of financial crises. Financial reforms should focus on the objective of sustained growth as an effective means of combating poverty.

31. These proposals should contribute to the preparations for the high-level conference on financing for development to be held in 2001, which will provide an opportunity for the comprehensive and systematic consideration of this issue and of the impact of instability and financial crises on social development.

32. This conference will offer a valuable opportunity to take a systemic and integrated approach to the consideration of development from a financial standpoint, thereby contributing to the analysis and the mobilization of resources for the appropriate implementation of the outcomes of the conferences and summit meetings held by the United Nations in recent years.

33. To ensure that the Latin American and Caribbean region's contribution to the changes that will result from the conference represents the viewpoints of all the parties involved, it is important to hold, in advance, high-level regional meetings involving governmental and intergovernmental actors that deal with foreign affairs, finance, central banks, trade and social development.

34. Likewise, it is important that the United Nations should disseminate the results of this meeting to contribute to the analyses and consultations being conducted in the various forums and interested institutions. These results will serve to complement the deliberations held thus far on the subject and to promote better coordination of efforts and more exchanges of views and information, which are necessary for building consensus on a global scale.